

A Study of Different Aspects and Impact of Service Sector on Indian Economy

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Abstract: *The service sector plays a significant role in Indian economy. It has covering 59 percent of shares in total GDP of India. The pattern of the sartorial share of employment has changed over the last two decades with the share of agriculture falling and of industry and services rising gradually. Services share in employment at 28.5 per cent in 2011-12 is higher than in industry at 24.4 percent. This paper provides an overview about the impact of rupee depreciation on service sector in India. This paper covers the information during the period of 2008-09 to 2012-13 and evaluating the performance of service sector in term GDP, Export and FDI.*

Key Words: Various aspects, Exports, FDI, Indian Economy, Service Sector etc.

Introduction: Due to increase in globalization and liberalization, the surroundings of the country become competitive and to survive in this competition, the need of the Indian services sector is to develop such competitiveness through service quality. Therefore, service quality is an important aspect for services sector. The service sector is called tertiary sector, is the third of the

three economic sectors. A type of economic activity i.e. intangible is not stored and does not result in ownership. Services are one of the two key components of economy. Service is consumed at a point of sale. The service sector provides the service, not an actual product that could be held in our hand. Activities in a service sector includes banks, retails, hotels, electricity,

water supply and many more. Service sector is an important part of economy.

Objectives of the Study

- To study various positive and negative aspect of services sector.
- To study of Globalization impact on India's Service Sector.
- To Study of Percent share of service sector in GDP

Hypotheses

- The significant changes in Indian economy under the services sector.

Research Methodology

Sources of Data

This study is completely based on secondary data. Secondary data were collected from the Economic Survey, Economic and Political Weekly (EPW), Finance and Development, Annual Reports of

services sector, Internet, Reports of expert groups etc. are used for collect the secondary data.

Scope of the Study

Scope of the study is limited to positive and negative aspect of services sector.

Contributions of Service Sector

(i) Contribution to National Income: Among all the three sectors i.e. agriculture, industry and service, it is the service sector that has contributed maximum to the national income of India. If India's income is 100, then service sector contributed 55.20 in the year 2011-12 which is more than half of the total. We have presented the share of different services in table 1.1 below.

Table 1.1 Contribution of services sector in GDP (2011-12)

Sr.	Particulars	GDP
1	Trade, Hotels etc.	16.3
2	Transport, Communication	7.8
3	Finance, real estate, business	16.7
4	Community, social and others	14.4
	Total service sector	55.2

Source: Economic Survey

You can see that financial, real estate and business services contributed 16.7 percent out of the total 55.2. Financial services include Banking and Insurance. Trade and hotel services contributed 16.3 percent. Community and social services which include public administration, defense etc. has contributed 14.4 percent while transport and communication contributed 7.8 percent to national income.

(ii) Contribution to Employment

Now a days more and more people are getting employment in service sector. Out of total employment level in the country, this sector has absorbed 29.4 percent of them in 2011-12. In times to come this figure is going to increase further. The main reason is that the number of educated people in India is increasing every year. They belong to various fields such as matriculates, graduates in arts, commerce, science, engineering, medicine and other professional and vocational streams. Service sector needs these people. In terms of wages and salaries, service sector, pays more than that of agricultural sector. Compared to agriculture, service sector provides more job opportunities. There is existence of large varieties of services which are provided round the year. But there are some seasonal activities in agriculture. So as people become more educated they move to service sector. So employment in service sector is increasing.

(iii) Attracting Funds from Foreign Countries

Looking at the growth of service sector of India people from foreign countries are showing more

interest to invest money in this sector to earn profit. Banking, insurance, Sectoral Aspects of Indian Economy ECONOMICS Notes MODULE - 7 Indian Economy 77 trade, transport, hotel

services combined have attracted more than 11lac 18 thousand crores rupees from foreign countries in the form of direct investment. Recently computer service has grown many fold in India. This has attracted more than forty seven thousand crores of rupees from foreign countries.

If investments are made then more job opportunities are created. This is advantageous for the nation.

(iv) Contribution of Service Sector to Exports

Exporting means selling goods and services to citizens in foreign countries to earn foreign exchange in the form of dollar, euro, yen, pound etc. In recent years Indian service sector has contributed a lot in earning foreign exchange for the country through exports. Our business services which include . IT, consultancy, legal services, etc. have become world standard.

Positive Aspect

- Increased free trade between nations
- Increased liquidity of capital allowing investors in developed nations to invest in developing nation.

The business market in the world has no boundaries. They can market their product in any part of the world.

- Global mass media ties the world together.

- Greater ease and speed of transportation for goods and people.
- Spread of democratic ideals to developed nations.

Negative Aspect

- Increased flow of skilled and non-skilled job from developed to developing nations as corporations seek out the cheapest labour.
- Foreign salaries attracted a lot of human capital which affected our productivity.
- Lead to a great dissatisfaction among the under-developed and developing countries.
- Greater risk of diseases being transported unintentionally between nations.
- Increased the chances of inferiority complex among these nations.
- Spread of a materialistic lifestyle and attitude that sees consumption as the path of prosperity.

Globalization on Indian Service Sector

- Reduction in Import duty.
- Removal of restriction on imports.
- Devolution of currency.
- Removal of permission on setting up enterprises and expansion of capacity.
- Privatization of Public Sector Units.
- Easier entry of multinationals.

Service sector on Indian economy contributes to around 55% of Indian GDP during 2006-2007. This sector plays a leading role in the economy in India and contributes to around 68.6% of the overall average growth in GDP between 2002-2003 and 2006-2007. In the year 2009-2010 the share in GDP is 55.2%. The growth of service sector annually in India is by 10% (2009-2010). It contributes to around 60% of Indian GDP during 2012-2013. The software services in Indian economy increased by 33% which registered a revenue of USD 31.4 billion. Business services grew by 82.4%. Financial services had a rise of 88.5%. Engineering services and product exports grew by 23%.

Performance of Service sector: The service sector of India is prominent in terms contribution to GDP, trade, FDI inflow and employment. This sector has include the wide range of service activities such as IT services, hotels and restaurants, transports, communications, insurance, financing real estate and business services etc. The overall rank of India in service is 11 in the world. The compound annual growth of service sector from 2001 to 2013 is 8.7. This is higher than world economy but less than china. The share in GDP has increased from 51.3 % in 2001 to 57 % in 2013. The compound annual growth (CAGR) of services export from 2001 to 2013 is 20.1. The performance of service sector from 2008-09 to 2012-13 has been indicating in table-2.

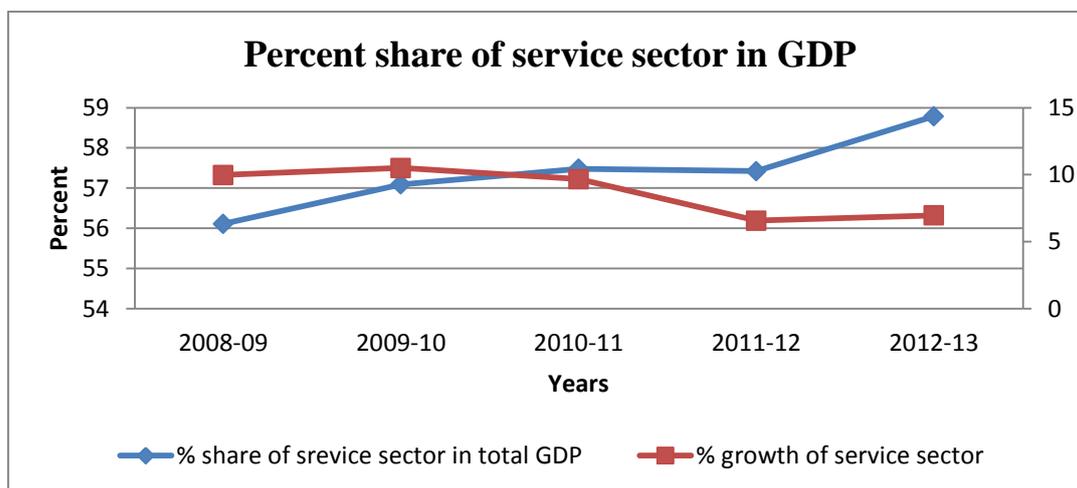
Table No. 2. Percent share of service sector in GDP

Year	Total GDP At factor Constant 2004-05 (Rs. Crore)	At cost, price (Rs. Crore)	Share Service sector, At factor Constant 2004-05 (Rs. Crore)	% share of srevice sector in total GDP	% growth of service sector
2008-09	4158676		2333251	56.11	9.98
2009-10	4516071		2578165	57.09	10.5
2010-11	4918533		2827380	57.48	9.67
2011-12	5247530		3013041	57.42	6.57
2012-13	5482111		3222680	58.79	6.96
Total	24322921		13974517	57.45	

Source: planningcommission.nic.in

Table no: 2 shows, that the maximum share of service sector in total GDP are found 58.79 percent in 2012-13 and minimum was in 56.11 percent in 2008-09. It is indicating that percent share of service sector in GDP are consistently increasing from 2008-09 to 2012-13.

About the growth rate in service sector are not increasing from 2008-09 to 2012-13. Sadly it is indicating that the highest growth rate was 10.50 percent in 2009-10 which comes down till to 6.96 percent in recent year of 2012-13.



Source : from table no:2

The values of coefficient are indicating the level of equality and inequality or association between two variables. If the value of coefficient are near to zero it means there is positive equality between two factors and both factors are not affecting to each other. If value are near to +1 that means there is inequality between two factors and one factor are affecting to another positively. If the value will go under -1 then it means there is inverse relationship between to variables.

As per data of above table number 2, the coefficient between share of service sector in total GDP and exchange rate of rupees with dollar are found 0.13, which are indicating strong equality in both respective variables during period of five year. It means one factor is not making suffer to other factor and so coefficient value is found near to 0.

Suggestions

Indian economy should be fully open to International trade and FDI.

- The government of India must frame such policies which induces the promotions of exports from all the sectors of the economy.
- India should have to search for new countries for export growth and scope.

Conclusion: A country must carefully choose a combination of policies that best enables it to take the opportunity while avoiding the pitfalls. For over a century the United States has been the largest economy in the world but major developments have taken place in the world economy. Since then, leading to the shift of focus from the United States and the rich countries of Europe to the two Asian Giants. India and China.

The service sector of Indian economy has been most high powered sector in Indian economy. It is growing very fast rate compared to any other sector. Contribution towards GDP and employment is also significantly high.

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